

ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Jackson Analyst: Marion Mann DeJong Bill Number: AB 2879
Related Bills: _____ Telephone: 845-6979 Amended Date: 06/15/2000
Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Teacher Retention Tax Credit

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _____.

AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended _____.

FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO _____.

REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED/AMENDED _____ STILL APPLIES.

☒ OTHER - See comments below.

SUMMARY OF BILL

Under the Personal Income Tax Law (PITL), this bill would allow a credit for credentialed teachers based on their years of service as a credentialed teacher. The credit would be capped at 50% of the income attributable to teaching. The credit amount would range from \$250 for teachers with four years of service to \$1,500 for 20 years of service.

SUMMARY OF AMENDMENT

The June 15, 2000, amendments deleted the intent language for tax provisions of the Budget Act of 2000, and added the credit discussed in this analysis.

EFFECTIVE DATE

As a tax levy, this bill would become effective immediately upon enactment and would apply to taxable years beginning on or after January 1, 2000.

LEGISLATIVE HISTORY

SB 1438 (Rainey - 2000) would have allowed a 100% credit for up to \$200 of qualifying educational expenses paid or incurred by a parent or a teacher at a qualifying educational institution. This bill failed passage in the Senate Revenue and Taxation Committee.

SB 1752 (Poochigian - 2000) would have allowed a 100% deduction of up to \$500 for unreimbursed qualifying classroom educational expenses paid or incurred by a qualified teacher. This bill was held in the Senate Appropriations Committee.

Board Position:

<input type="checkbox"/> S	<input type="checkbox"/> NA	<input type="checkbox"/> NP
<input type="checkbox"/> SA	<input type="checkbox"/> O	<input type="checkbox"/> NAR
<input type="checkbox"/> N	<input type="checkbox"/> OUA	<input checked="" type="checkbox"/> PENDING

Department Director

Date

Gerald H. Goldberg

6/29/00

ABX 13 (Runner - 1999) would have allowed a deduction for 100% for costs paid or incurred by a teacher for classroom supplies used in teaching grades K-12 at any school in this state. This bill was held at the Assembly Desk.

AB 336 (Miller - 1997) would have allowed a credit for qualifying classroom educational expenses, not to exceed \$500, that are paid or incurred by a qualified teacher at a qualifying educational institution. This bill failed passage in the Assembly Appropriations Committee.

SPECIFIC FINDINGS

Existing federal and state laws provide various tax credits designed to provide tax relief for taxpayers who incur certain expenses (e.g., child adoption) or to influence behavior, including business practices and decisions (e.g., research credits or economic development area hiring credits). These credits generally are designed to provide incentives for taxpayers to perform various actions or activities which they may not otherwise undertake.

Existing federal and state laws provide various tax credits that are used to reduce the taxpayer's tax liability dollar-for-dollar. Tax credits, unlike deductions, are claimed after taxable income has been calculated and do not create differences between the taxable income amounts shown on the federal and state income tax returns.

Current federal and state laws do not provide a tax credit for teachers.

Under the PITL, **this bill** would allow a credit for credentialed teachers based upon the years of service as a credentialed teacher. The credit amount would vary as follows:

<u>Years of Service</u>	<u>Credit</u>
At least 4 but less than 6 years	\$250
At least 6 but less than 11 years	\$500
At least 11 but less than 20 years	\$1,000
20 or more years	\$1,500

The credit could not exceed 50% of the amount of tax that would be imposed on the teacher's salary, excluding pensions or other deferred compensation, after application of the standard deduction or itemized deductions.

"Credentialed teacher" would mean a person that holds a preliminary or professional clear credential as determined by the Commission on Teacher Credentialing. "Qualifying educational institution" would mean any public or private elementary, secondary, or vocational-technical school located in California, including any federal agency or instrumentality providing such education on an Indian reservation or military installation within California.

The credit could reduce regular tax below tentative minimum tax. Excess credit amounts would not be carried forward.

Policy Considerations

The bill does not specify a repeal date, which is used in many tax provisions as a mechanism for the Legislature to review credit provisions and to determine whether they should be continued.

Implementation Considerations

The computation to determine income attributable to service as a teacher for purposes of the 50% limitation is very complex and would require taxpayers to determine their tax liability twice (once including the teaching income and once excluding it) to limit the credit. The complexity of the limitation may cause taxpayer confusion and frustration. It is anticipated that calls and inquiries regarding the credit would increase department workloads. Clean-up legislation may be appropriate to provide a simplified calculation to reduce taxpayer confusion and departmental costs.

Implementing this bill would require some changes to existing tax forms and instructions and information systems.

FISCAL IMPACT

Departmental Costs

It is estimated that implementation of this bill would cost \$850,000 for fiscal year 2000-2001 with ongoing annual costs of \$470,000. It is anticipated that phone calls to the department would increase because of the degree of complexity to calculate the credit limitation. This estimate assumed the department would receive 60,000 additional calls and additional hours would be required for processing the returns. This estimate also assumed 4000 hours for programming and testing for changes to the PIT system due to the scaled credit amount.

Tax Revenue Estimate

This proposal is estimated to impact PIT revenue as shown in the following table.

Fiscal Year Cash Flow Taxable Years Beginning After December 31, 1999 \$ Millions			
2000-01	2001-02	2002-03	2003-04
-\$218	-\$188	-\$202	-\$217

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

Tax Revenue Discussion

The revenue impact for this bill will be determined by the number of qualified teachers, the length of service of credentialed teachers claiming the credit and the amount of credits that can be applied against available tax liabilities.

It is projected that for the first tax year, 2000, approximately 300,000 public school teachers and 40,000 private school K-12 teachers will qualify for the credit. Information obtained from the Department of Finance on teachers, years of service, and salaries was used in the analysis. The rate at which credits would be applied against tax was derived from state tax return data for employees with comparable incomes.

BOARD POSITION

Pending.